



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

TARIFF MAKING—FACT AND THEORY

BY H. E. MILES,

Of the National Association of Manufacturers, Chairman Central Committee
on Expert Tariff Commission, Representing Fifteen National Organizations.

Although this paper is critical of the details of our tariff laws, it is written by a protectionist, a manufacturer, and a Republican. My belief in the principle of protection to American industries and labor is so implicit and deep-seated that I have no patience with ways of indirection, and am impelled to protest against the abuse of an economic principle upon the right use of which depends the welfare of millions of manufacturers and laborers.

To maintain political independence, which a nation must have if it is to exist at all, it is of greatest importance that the country should have economic independence. The former is greatly strengthened by the latter. In its effort to secure economic independence, a new country faces at the outset the handicap of the centuries in accumulated capital, experience, skill and general development of older nations. These older lands are themselves rapidly progressing. The new country must advance not merely as fast but faster if it is to catch up. It is a patriotic duty to secure economic independence.

It is, moreover, of inestimable money and intellectual advantage to a nation to diversify industries and to advance along many lines simultaneously, and this is especially so in a country where natural resources are so superior in quantity and quality as in the United States.

It is necessary in a republic where all men vote and are equal before the law, that a high standard of living be maintained, and that every worthy man should have income enough to live in comfort and to educate his children. To make this possible is a patriotic duty which the American people accept joyously.

The very strength and security of the protective tariff as a part of American polity often lead to abuse and corruption. The politician or the demagogue by portraying the dangers of free trade readily persuades his constituents to instruct him to champion

protection; and too often he uses his instructions as a cloak to cover his support of sordid interests and corrupt measures. The discussions of the tariff in political campaigns are debates as to the merits of free trade or protection instead of being a consideration of the methods by which protection should be applied. Not in our generation has even a Republican politician clearly outlined the principles that underlie rate making and justify with exactness particular rates. This was illustrated recently when I asked an important member of the Ways and Means Committee of the House upon what underlying principle of measurement the rates rest. He could conceive of none. Another member of the committee bit his lips and walked away. He is personally responsible for a schedule that costs the American people from one to two million dollars per week. The first member then said, "Why, Miles, if anyone down in my district wants anything, I get it for him, and I get all I can, and that's all there is to it." And so it is. Were that man to try to be specific, he could not justify a single schedule with any exactness. He is only a tariff horse trader, and resists any attempt to make him otherwise.

I went with certain data to the man probably most responsible of all for the present tariff situation. Said he, "Do you think we don't know. Take Senator ———, of ———, for instance. He held up the Dingley bill till we gave him and his pals a wholly unwarranted tariff on borax worth to them over \$5,000,000 in money. We had to have his vote!"

And so it is that Nevada borax, the most easily mined and the best deposits in the world, is "protected" against inferior foreign deposits, and that the retail price of borax in England is 2½ cents a pound, while in the United States it is 2½ cents plus the 5 cents duty, or 7½ cents. This senator quickly sold the mines to an English syndicate for \$12,000,000. What he sold was incidentally the mines, and in principal part, the right to tax the American people, by act of Congress, 5 cents per pound, or 200 per cent on its borax over and above a fair price. The congressman who told me the story said also, "If it were in my power I'd so fix it that the present tariff could not be altered one jot or tittle in sixteen years." And a people of high moral ideas exalts this man and his many followers.

This man knows that when the Dingley bill was passed the cost of the manufacture of steel rails was \$12 per ton in Pittsburg and \$16 in England; ocean freight was, and is, about \$3.50, making

\$19.50 the English cost delivered in New York, or 63 per cent above the Pittsburg cost. Imagine any congressman being so foolish or so daring as to attempt to explain why, with this 63 per cent of "natural protection," \$7.80 per ton, or 65 per cent, more protection was given by Congress. The granting of a tariff like this is a farming out of the taxing power for private considerations and to private interests.

Not long after the passage of this bill steel makers, guided by Wall Street promoters, put about one billion dollars of water into one corporation, and partly, at least, by the powers given to them in that tariff by Congress and the President, they have transfused the wealth of the people into that watered stock, in an amount not less than \$1,000,000 per week, until it has become a most substantial property. Lesser concerns have taken as much more. Sales prices have been doubled. Seeking relief from abroad, domestic users have found the government of the United States practically preventing relief through importations at one-fourth lower prices, although these lower prices were being gladly met by our makers in neutral markets, and very profitably.

Americans owning factories both in the United States and in Canada are buying Pittsburg steel cheaper for their Canadian factories, and are supplying foreign markets from Canadian factories formerly supplied from the United States. Leading political manipulators, sometimes called statesmen, and even protectionists, knowingly made all this possible in the name of protection to American industries and labor.

Or consider pig iron. The wage cost at the furnace of converting the raw materials there assembled into pig is, as stated by Mr. Schwab, 41.1 cents per ton of pig produced. Indeed, Mr. Schwab says that this covers, at the best furnace, also maintenance and overhead expenses. This seems almost incredible, but for more than a generation our steel men have taxed the belief of the manufacturing world by the actual facts of their accomplishments. Certainly pig, like all other steel and iron products, is produced cheaper in this country than anywhere else on earth. Mr. Gary fairly conceded this to a congressional committee, which, however, for some reason, failed to act upon the information.

In utter disregard of the principle of protection Congress, under the influence of John Dalzell and in the name of the principle thus

set at nought, put a duty of \$4.00 per ton on pig iron—a duty about ten times the total wage cost of production at the furnace. It is interesting to know that Chairman Payne, of the Ways and Means Committee, fearing popular opposition, fought Mr. Dalzell on the steel schedule for two weeks. There are limits to which even Mr. Payne goes reluctantly. A friend tells me Mr. Payne has said, "Why, logically, the steel people deserve no duty at all."

The next greatest industry after iron and steel is textiles, with an output, as I remember, of about \$800,000,000 per annum. The provisions of the textile schedule pass all belief. No industry more clearly deserves and requires protection. No industry has less need of devious and unfair rates and methods. The output of all the woolen mills of Massachusetts by a recent census, is of the yearly value of \$200,000,000. The wages in the mills total \$50,000,000, or 25 per cent of the output. Wages are there 60 per cent higher than in Great Britain which would make the British rate 16 per cent of the output on the basis of American values. The difference in wage cost is therefore 9 per cent. It would seem that twice this 9 per cent, or 18 per cent, would be moderately protective, and three times, or 27 per cent, almost liberally protective, with some allowance possibly, to the wool grower. But the rates run from 75 per cent to 165 per cent as measured by the money actually paid in at the customs houses. This latter figure, however, marks only the point of legislative prohibition, beyond which the rates mount to 200 per cent and upwards. There is neither honesty nor common sense in this schedule, unless the evidence of extreme manipulation on the part of the manufacturers is to be so considered.

Reference may also be made with propriety to pressed glass, which is made so cheaply in the United States that it is exported to places of foreign manufacture and there sold at better than American prices. The leaders in that industry were invited by Mr. McKinley to write their own schedules for the McKinley bill, "and to make them fair." This was, and is, quite the common practice. The committee of glass men, thus placed upon honor, put pressed glass on the free list. But it appeared in the law finally at 65 per cent duty. Evidently greedier men secured the change, and with the proof of their unfairness already before Congress.

The present political methods of tariff making offer special inducements and opportunities for the corrupt use of corporate

influence. Having millions of possible profits at stake in the fixing of a tariff rate, it is no wonder that the trusts and other special interests will spend large sums to influence elections and to control the actions of members of Congress. A congressman, who represents one of the most important manufacturing sections of the United States, said to me, "My people would, I believe, spend \$25,000,000 to keep the tariff right where it is." The special interests have been quite willing to make campaign contributions, and their aid has been given to whichever party is in power. As the late president of the Sugar Trust testifies, "We give large contributions to Republican campaign funds in Republican districts; to the Democrats in Democratic districts; and divide the funds equally between the two parties in doubtful districts." That numerous men prominent in public life have been corrupted by money spent to control the tariff is a fact of which there is conclusive proof.

Our tariff schedules and the methods followed in working them out constitute a national scandal. The tariff is a moral as well as an economic question, and a popular demand for a tariff that shall be honestly and equitably protective is greatly needed. A general public agitation to accomplish this end could hardly fail to meet the approval of the President of the United States. If Mr. Taft should be elected, he will surely welcome such a popular movement. He will not want to sign a dishonest tariff bill. The President, it should be remembered, shares with Congress the work of tariff making. This fact has not been pressed home strongly enough. The American people will not again look on complacently while a President signs a tariff bill with one eye shut and the other blinking.

The Way Out

Nothing is easier and simpler than the making of an honest, scientific and helpful tariff. I do not mean by this that it can be done in a night-time, nor with small care. It requires the ceaseless patient endeavor of high-minded men, expert in manufacturing processes, in international trade relations and in tariffs of this and other countries.

Four principles heretofore wholly disregarded must be constantly and thoroughly respected. These are:

1. Protection to the consumer.
2. Domestic competition.
3. International costs and foreign competition.
4. Reciprocity, with maximum and minimum schedules.

Protection to the Consumer

The benefits of the tariff should accrue to all the people and not to a few politicians and manufacturers only; nor to the manufacturers and their dependents in Congress and in Wall Street. The money in the pockets of the public belongs to the individuals who comprise that public, and cannot lawfully be taken from those pockets except upon full and fair equivalent. The makers of the constitution were themselves so upright and clear minded upon this proposition they did not stop to consider that Congress could, much less that it would, rob the people under the taxing clause. They would have considered unconstitutional such abuses as now prevail. They justified the original bill, which gave average protection of only 5 per cent, upon the ground that it was of such direct benefit to every inhabitant as fully to recompense him. To-day our lawmakers ignore the rights of the consumers and the public in their service of the corporations.

The shoe is now on the other foot. The taxpayer is held to be the property, as it were, of the manufacturers and promoters. Instead of the manufacturer proving that he is entitled to a certain tariff, he is held to deserve the earth and all its increase. Consumers are not expected to assert either rights or interest in the charges made against them.

The public must not again permit the consumers' interests to be sacrificed as they were, for instance, in the present woolen and sugar schedules. The woolen manufacturer, upon submission of proof that imported wool was used in making exported yarn, may secure a drawback of the duties paid. The evidence shows that $1\frac{1}{2}$ pounds of wool are used in making a pound of yarn, but the tariff allowance is for $2\frac{1}{2}$ pounds of wool. When the tariff rates on sugar were being considered by the Ways and Means Committee the representatives of the Sugar Trust insisted upon certain rates, but declined to give the figures and other proofs showing the necessity for the rates. The result was that the committee "compromised" with the trust by giving it more than would have been

given had there been specific data at hand from which to make the rates. Who, it may fairly be asked, was in real control of tariff making that day, the people through their representatives, or the trusts with their friends on both sides of the committee table? The result has been sugar prices higher in the United States than in Great Britain, and a tariff rate exceeding the total cost of production, including the expense of raising the beets.

Competition

Competition was for many years considered a cure-all for tariff abuses. In competition Congress took refuge as against all criticism. Mr. Carnegie showed the reliance the public thus placed upon this when he said, in 1884, concerning steel:

We are creatures of the tariff. If ever the steel manufacturers attempt to control or have any general understanding among them, the tariff would not exist one session of Congress. The theory of protection is that home competition will soon reduce the price of the product so it will yield only the usual profit. Any understanding among us would simply be an attempt to defeat this. There never has been, or ever will be, such an understanding.

Mr. Carnegie did not foresee what would occur. Excessive, dishonest, and unreasonable rates made by Congress and the administration have been the principal inducement for the destruction of competition and the formation of trusts for fifty years, during which time a very great number of the tariff rates have been not protective in any sense, but have been prohibitive. Prohibition of imports is not protection.

Congress might almost as well decide that there shall be no competition as to give, as it now does, to shrewd American business men rates that are practically prohibitive of imports upon billions of dollars worth of the requirements of the people. In my own business, for instance, a protection of 15 per cent to 25 per cent is necessary, but Congress gave us, under an omnibus clause, 45 per cent. In doing this it permitted, if it did not invite us, to consolidate, and to add to our sales prices about 20 per cent and treble our profits, possibly quadruple them. At any rate the strong arm of the government will not permit of foreign competition, and so by our elimination of domestic competition, the people can be put wholly at our mercy to the extent of the excess duty.

And this is what has happened with most of the necessities of life. The government under both political parties has aided, abetted, and enriched trusts and trust makers insistently and outrageously.

Domestic competition has been so far eliminated that it is no longer to be reckoned with as of saving consequence.

International Costs and Foreign Competition

With home competition gone, this principle of international costs remains substantially our only salvation. It is a pleasure to note that this, as a living and vital principle, was first brought clearly and emphatically to the public mind by the American manufacturers themselves, through their leading organization, the National Association of Manufacturers, which for years has declared that the tariff should measure, in Mr. Taft's language, "Substantially the permanent differential between the cost of production in foreign countries and in the United States." This principle is itself one of competition, limiting the possible extent of trust extortion under tariff by the opportunities of foreign competition after the limits of a proper protection have been reached.

Protection does not mean that the prize-fighter shall be protected against the child, but rather the child against the prize-fighter. Our manufacturers are protected when they are given a tariff rate that measures this difference in international costs, and makes them the equal in matter of costs of the producers of the same articles in Europe and the Orient.

The Senate recently stated this principle in a resolution concerning the next revision and implied that revision would be based upon this principle, as it must be if fair. But with extreme regret I note that the sub-committee to which the question of revision is referred is composed of men who presumably represent in business life the over-protected interests.

The tariff committee of the House has made a display of getting exact information, but I know that they will not regard this principle or any other. They talk of using experts; but the men on these committees are the men discredited in recent years by the progressive wing of the Republican party, and finally at the Chicago convention. The data derived from experts will hardly be of great influence. This principle of the difference between the cost abroad and at home, as determining the rate was accepted in Chicago and

made an important part of the Republican platform. The ultra-protected interests, however, secured the addition of a clause which opens the door to excessive rates, as heretofore. The plank reads: "The true principle of protection is best maintained by the imposition of such duties as will equal the difference between the cost of production at home and abroad, *together with a reasonable profit to American industries.*

The government does not guarantee profits to the wheat grower, good incomes to clerks, and clergymen, nor steady employment to labor. Is it to guarantee profits to trusts only? This clause would not help those who manufacture and sell under old-fashioned competition, for competition keeps their profits at the minimum, or destroys profits. But when trusts have only foreign competition to fear and the government gives them a duty which brings their costs on a parity with Europe and Asia it gives them full and fair protection, trusts though they are. When it adds to such protection a guarantee of profits also, it practices the worst sort of class favoritism, and in a quarter where it is least of all pardonable. This sort of "protection" is equal to a guarantee of stocks, bonds, and income, at the expense of the people.

The statement of principles in party platforms is not to be taken very seriously. Rather let us hope that Mr. Taft, who secured so much in the acknowledgment of the principle that tariff should be based on international cost differences, will now successfully assist the people to its definite and fair application. The National Association of Manufacturers has declared for the exact difference in costs, to be figured, however, with such reasonable and ample margin of safety against contingencies as ordinary prudence justifies.

The proper application of this principle to the rates will obliterate so much of the controversial and party differences that it will cause the tariff to be seen with new eyes. Tariff extortion will cease. The moral tone of politics and business will be immeasurably advanced. Home users will purchase at fair prices, and, for the most part, as cheaply as foreigners now buy from us. These equalizations of advantages will afford us world-wide trade opportunities of inestimable advantage to us at all times, and especially in dull times like the present.

Reciprocity

Fortunately, we are, at last, almost certain that the next tariff will be one of maximum and minimum schedules, leaving us no longer alone among the nations and unable to make trade agreements for the extension of commerce.

It was President McKinley's fondest hope as he took office to make his administration distinguished by reciprocity treaties, under the provisions of the present law. Great was the public disappointment when those who permitted these provisions to be incorporated in the law only as a vote-catching and specious sop to the public, prevented the fulfilment of his hope. Reciprocity should be made a prominent feature of our future tariff legislation. The importance of securing expanding foreign markets for our manufactures makes this imperative.

With an honestly made tariff that does not unduly burden the consumer, that permits of healthful foreign competition, that is as high, and only as high, as is required to place domestic and foreign producers on a parity, that provides for reciprocal trade agreements in the interest of a larger foreign trade, American industries will prosper by honest and equitable methods.